

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS AND ELECTRIC RATES OF)
LOUISVILLE GAS AND ELECTRIC COMPANY) CASE NO. 10064

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file an original and 16 copies of the following information with this Commission, with a copy to all parties of record no later than January 22, 1988. If the information cannot be provided by this date, LG&E should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission. LG&E shall furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each item of information requested.

Information Request No. 3

The answers supplied by LG&E were not clearly responsive to the information requested in Item Nos. 1 through 3 of the Commission's Information Request No. 2. In order to enable LG&E to provide more precise and clearer responses, the Commission has narrowed the scope of the information requested to several major recommendations. LG&E should provide the information requested in

Question No. 1 through 5 clearly relating the actions taken as a result or in response to the recommendations of the Management Audit to the impact on test year expenses and the proposed test year adjustments.

1. For recommendations;

IV-5	X-5	XII-4	XIV-14	XVIII-1
V-5	XI-2	XIII-1	XV-8	XVIII-2
VI-4	XI-3	XIII-12	XVI-1	XVIII-3
VI-5	XI-7	XIII-14	XVI-2	XVIII-4
VII-1	XI-8	XIV-1	XVI-3	XVIII-5
X-2	XI-11	XIV-3	XVII-4	
X-3	XI-12	XIV-12	XVII-5	

provide the following information:

a. A narrative discussion of the actions taken toward implementation during the test year.

b. The total cost of the action incurred through November 1987.

c. The cost reflected in the test-year operating statement for actions taken. Provide a breakdown of this amount into the accounts charged.

d. The estimated total cost of completing the recommendation.

e. The annual costs of maintaining any programs initiated as a result of the recommendation.

f. The annual dollar amount of savings, and the benefits or efficiencies expected from implementation of the recommendation.

g. The dollar amount of savings, and the benefits or efficiencies realized through partial completion between September 1, 1986, and August 31, 1987.

If any of the above information is not available or cannot be produced for use in this proceeding, an explanation should be given as to why each item is not available. If the information requested has previously been filed with this Commission in the manner requested above, please indicate when it was filed and reference the proceeding or report which contains the information. For each response relating to the costs or savings, provide all documentation used to determine the amounts.

2. For each pro forma adjustment included in Fowler Exhibit 4, explain how the cost and benefits resulting from implementation of Management Audit recommendations have been considered. Include specific reference to the Management Audit recommendation and how the test year cost and savings contained in Question No. 1 above have been considered.

3. With reference to page II-13 and II-14 of the Executive Summary of the Management Audit, correlate the annual and one-time cost savings, and the six recommendations noted with the information supplied in Question No. 1 above.

4. Provide a thorough discussion of the impact on the test year, and the expected impact on LG&E's future strategies and costs for all recommendations above which relate to the work force size, work force mix, work force management and the compensation and benefit levels of LG&E's officers and employees.

5. Provide the cost and savings included in the test year for all the recommendations of the Management Audit which have been closed.

6. Provide workpapers supporting the straight-time salaries shown in the response to the Commission's Information Request No. 2, Item No. 8, for each category of employees. Include a discussion of any assumptions.

7. With reference to LG&E's response to Item No. 9 of the Commission's Information Request No. 2, explain why LG&E used the straight-time salaries of employees on the payroll at June 9, 1987, rather than employees on the payroll at August 31, 1987, the test year-end.

8. Provide the labor adjustment for each category of employees calculated based on the annualized straight-time wages of employees at August 31, 1987. Include supporting workpapers and a discussion of any assumptions utilized.

9. Provide the labor adjustment for each category of employee calculated based on the annualized straight-time wages of employees at October 31, 1987. Include supporting workpapers and a discussion of any assumptions.

10. With reference to the response to Item No. 13 of the Commission's Information Request No. 2, explain how LG&E determined the base straight-time salaries for each employee since the company does not maintain payroll records by employee category.

11. Provide the amount of overtime hours, overtime pay and premium pay for the test year and the past 5 calendar years.

12. What levels of overtime hours, overtime pay and premium pay does LG&E expect for 1988? For the next 3 to 5 years?

13. Explain what actions LG&E is taking to decrease the amount of overtime hours, overtime pay and premium pay.

14. For each category of employee, provide the number of personnel employed on the following dates:

- a. November 11, 1986.
- b. June 9, 1987.
- c. August 31, 1987.
- d. October 31, 1987.
- e. November 11, 1987.

15. Provide a detailed explanation of the reasons for the increase in the percentage of operation labor for calendar years 1982 through 1986.

16. With reference to the response to Item No. 18, page 2, of the Commission's Information Request No. 2, provide the actuarial valuation as of May 1, 1986. Provide a brief discussion of the manner in which the amount of each item in the May 1, 1987, valuation was determined. Provide a discussion regarding the determination of each component included in the May 1, 1986, valuation.

17. Provide the number of employees at test year-end actually enrolled in each health insurance plan on page 8, of LG&E's response to Item No. 16(d) of the Commission's Information Request No. 1.

18. Provide the actual cost and the actual amount of expense on LG&E books at test year-end for health insurance. These

amounts should relate to the actual payments to providers or to the amounts accrued for payment. Do not adjust for cash incentives.

19. Does the amount of hospitalization costs per books of \$7,781,922 on page 8, Item No. 16(d) of LG&E's response to the Commission's Information Request No. 1, include or exclude cash incentive payments?

20. For six typical non-union employees (each selecting one of the three less expensive medical plans; three single, three family) that opted to switch to the flexible benefit program and receive a cash incentive, provide the following information:

a. The monthly rate and annualized cost of the new insurance program.

b. The cash incentive paid in year 1 and the amount to be paid in years 2 and 3. Include workpapers.

c. The monthly rate and annualized cost of the plan under which each employee was previously covered.

21. Provide an explanation correlating the calculation of the group life insurance expense on page 10, Item No. 16(d) of LG&E's response to the Commission's Information Request No. 1 to Item No. 5(m)(3)(ii) of LG&E's response to the Commission's Information Request No. 2. Include documentary support of the coverage percentage, the rates charged and the manner in which the provider determines the amount due from LG&E.

22. Provide an explanation and workpapers supporting the calculation of the qualifying amounts in LG&E's response to Item No. 16(d), page 11, of the Commission's Information Request No. 1.

23. With reference to the adjustment for July storm damages and LG&E's response to Item No. 25 of the Commission's Information Request No. 2, provide the following:

a. A detailed explanation supporting LG&E's reasons for treating the \$862,019 overtime labor as an incremental expense related to the July storm.

b. Provide the total storm damage expenses for the test year.

c. Provide the storm damage expenses for the month of July for the past 5 calendar years.

d. Provide the labor (regular and overtime), payments to vendors and materials for the month of July for the past 5 calendar years in the same manner as Item No. 25, page 2, of LG&E's response to the Commission's Information Request No. 2.

24. With reference to the expense adjustment to reflect customers served at August 31, 1987, Hart Exhibit 6, page 2, and Item No. 26 of LG&E's response to the Commission's Information Request No. 2, provide a detailed explanation and workpapers that clearly show how each item on lines 1 through 7 of Hart Exhibit 6, page 2, are related to KWH sales.

25. With reference to LG&E's response to Item No. 28 of the Commission's Information Request No. 2, provide the analyses made by LG&E of projected sales, historical charge-offs and of the projected reserve balance that led to LG&E's determination that the provision for uncollectible accounts should be \$250,000 per month for 1986 and 1987.

26. With reference to LG&E's response to Item No. 30 of the Commission's Information Request No. 2, provide the following information:

a. An explanation of the correlation between the information supplied on page 3 of the response to the data requested in Item No. 30(a) and (b).

b. The information requested in Item No. 30(b) relates to deferred taxes that are not "protected" under the average-rate assumption method of the Tax Reform Act of 1986. If LG&E cannot provide the information requested in that item, please provide a detailed explanation of the reasons why this information cannot be provided.

c. Provide the state deferred taxes included on page 4 in the categories as requested in Item No. 30(a) and (b) of the Commission's Information Request No. 2.

27. Provide an explanation of how Ryan Exhibit 3, page 1, reflects that 7 CDD on May 1 will not generate the same number of air conditioning KWH as they would on July 15.

28. In LG&E's opinion can any conclusions be drawn from the information submitted in response to Item No. 7(f) of the Commission's Information Request No. 2? Please explain in detail why or why not.

29. Provide the information requested in Item No. 7(h) of the Commission's Information Request No. 2, for each period from 1977 through 1987, for which this information is available. Provide an explanation of the reasons why this information is

unavailable for the periods where LG&E does not provide this information.

30. Provide an explanation and include workpapers showing how LG&E determined the cents/KWH in Item No. 7(k)(6), page 2, of the of the response to the Commission's Information Request No. 2.

31. Are there any factors other than weather that may affect temperature sensitive sales? Please explain why or why not. How have other factors that affect temperature sensitive or non-temperature sensitive sales been incorporated in the proposed adjustment?

32. In the second paragraph of the Definitions section, Ryan states that degree days (both heating and cooling) in the "normal" section (of Ryan Testimony Exhibit 3) are the normal number of billing-cycle degree days in each month. On page 5 of Ryan's testimony it is stated, "According to the NOAA the Louisville area typically experiences 1,342 CDD and 4,525 HDD in a calendar year. These normal levels of degree days are based on data gathered between 1951 and 1980." These calendar year totals are identical to the billing-cycle totals shown in the "normal" section. However, on a monthly basis, billing-cycle degree days are not the same as calendar degree days. This is the case for all customer classes except Fort Knox. Demonstrate how billing-cycle degree days are calculated and how they differ from calendar degree days. Provide all workpapers.

33. From Ryan Exhibit 3, it appears that KWH/HDD/customer and KWH/CDD/customer are not calculated in the same manner. Has

some sort of weighting mechanism been employed? Explain the difference between the calculation of these two figures.

34. The following questions pertain to Mr. Ryan's response to Commission request Item 7(i) and Ryan Testimony Exhibit 3:

a. "Calendar Month Normal" degree days do not correspond to 30-year average degree days shown in Ryan Exhibit 2. How are these determined?

b. Explain the calculation of normalized "Total MWH sales."

c. Provide a more detailed narrative description of the "MWH Expense Adjustment."

35. In Mr. Ryan's response to Item 7(K-5) a regression run is supplied that pertains to Exhibit 5.

a. Provide a narrative interpretation of the intercept estimates 21824.79 (summer) and 20666.00 (winter). Could these somehow be construed as temperature adjusted base loads?

b. The dependent variable in these models is Daily Summer (Winter) Net Local MWH. Explain the meaning of this variable and the means by which it was calculated or determined.

36. With reference to LG&E's response to Item No. 32(a) and (b) of the Commission's Information Request No. 2, provide the additional information requested for the following accounts (a. through e. refer to electric and f. through m. refer to gas):

a. Power Production Expenses:

(1) Account No. 500 - Operation Supervision Engineering - provide the amount of regular and overtime hours charged

during the test year and the prior year. Provide a detailed explanation of the reasons for the increased hours charged.

(2) Account No. 506 - Miscellaneous Steam Power - provide a detailed explanation of the reasons for the increased labor charges. Provide a thorough discussion of the payments to NUS Operating Company. This discussion should address, at a minimum, the nature of the training material and of the services rendered, the benefits, efficiencies or cost savings LG&E expects to result, and the reasons these costs were incurred.

(3) Account No. 512 - Maintenance of Boiler Plant - provide a detailed explanation of the \$638,546 labor decrease. Provide a detailed explanation of the reasons for and nature of the additional costs associated with the repairs to Cane Run Unit 5 and with the Mill Creek planned outages. Are these normal, recurring costs? Please explain.

(4) Account No. 542 - Maintenance of Structures - provide a detailed explanation of the reasons for the increased labor charges.

(5) Account No. 544 - Maintenance of Electric Plant - provide a detailed explanation of the reasons for the increased labor expense.

(6) Account No. 553 - Maintenance of Generating and Electric Plant - provide a detailed explanation of the nature and reason for the repairs to the Zorn Station.

(7) Account No. 554 - Maintenance of Miscellaneous Other Power Generating Plant - provide a detailed explanation of the nature and reasons for the repairs at the Waterside Station.

b. Transmission Expense:

(1) Account No. 562 - Station Expenses - provide the increased costs associated with the removal of asbestos. Provide a detailed explanation of the reasons for and nature of the increased costs not associated with the removal of asbestos.

(2) Account No. 566 - Miscellaneous Transmission Expenses - provide a detailed explanation of the reasons for the increased labor expenses.

(3) Account No. 570 - Maintenance of Station Equipment - provide a discussion of the nature of the repairs.

(4) Account No. 571 - Maintenance of Overhead Lines - provide the amount of increase related to painting and to tree trimming. Indicate whether or not LG&E considers the painting of towers as recurring expenses and how often LG&E expects to paint towers.

c. Distribution Expenses:

(1) Account No. 583 - Overhead Lines Expenses - provide an explanation of the reasons for the increased labor charges. Provide a thorough discussion of the nature of the training program, the reason for the program, and the benefits, efficiencies or cost savings expected to result from the program.

(2) Account No. 588 - Miscellaneous Distribution Expenses - provide an explanation of the nature of the increased materials expenses and the reasons for the increases in labor and materials expenses.

(3) Account No. 593 - Maintenance of Overhead Lines - Item No. 25, page 2, indicates that \$1,022,620 in labor

and \$857,143 were charged to Account No. 593 for July storm damages. Assuming that this accounts for the labor increase, provide the nature and reasons for the \$359,628 increase in materials.

d. Sales Expenses: Account No. 912 - Demonstrating and Selling Expenses - provide a discussion of the reasons for and the nature of the increases.

e. Administrative and General Expenses:

(1) Account No. 920 - Administrative and General Salaries - provide a discussion of the reasons for the increased labor expenses.

(2) Account No. 923 - Outside Services Employed - provide the amounts transferred to this account for Kelly Services and Murray Guard. Indicate the accounts previously charged with these expenses. Provide an itemized listing of the advisory agencies employed, the nature of the services provided, and any expected benefits, cost savings or other efficiencies.

(3) Account No. 925 - Injuries and Damages - provide an itemization of the increased costs as noted in the response.

(4) Account No. 926 - Employee Pensions and Benefits - the response to Item No. 5(f), page 7, indicates that pension costs expensed in 1986, was in excess of \$4 million. Provide the amount of decrease in pension expense during the test year from the prior 12-month period. Provide a detailed explanation and quantify the other items which increased during the test year.

(5) Account No. 931 - Rents - provide an explanation of the reasons for the increased rents.

(6) Account No. 935 - Maintenance of General Plant
- provide an explanation of the reasons for the increases.

f. Other Gas Supply Expenses:

For each of the accounts listed below, supply the gas unit costs and the quantities which support the decreases presented:

(1) Account No. 803 - Natural Gas Transmission Line Purchases - decrease of \$30,891,192.

(2) Account No. 808.1 - Gas Withdrawn from Storage - decrease of \$15,035,108.

(3) Account No. 808.2 - Gas Delivered to Storage - decrease of \$8,138,621.

(4) Account No. 812 - Gas Used for Other Utility Operations - decrease of \$507,703.

g. Underground Storage Expenses:

(1) Account No. 831 - Structures and Improvements - provide a detailed explanation of the reasons for the decreased labor charges. Provide a thorough explanation of why the payments for the purchase of antibacterial chemicals decreased.

(2) Account No. 832 - Reservoirs and Wells - provide a detailed explanation of the reasons for the increased labor charges. Provide a thorough explanation of why the purchases of antibacterial chemicals increased.

(3) Account No. 833 - Lines - provide a detailed explanation of the reasons for the increased labor charges.

(4) Account No. 837 - Other Equipment - provide a detailed explanation of the nature for increased labor charges.

Provide a detailed explanation of the nature and reason for increased repairs at the Muldraugh Storage Field.

h. Transmission Expenses:

(1) Account No. 850 - Supervision and Engineering - provide a detailed explanation of the reasons for the increased time charged to this account.

(2) Account No. 863 - Mains - provide a detailed explanation of the reasons for the decreased labor charges.

i. Distribution Expenses:

(1) Account No. 871 - Load Dispatching - provide a detailed explanation of the reasons for the increase in labor charges.

(2) Account No. 874 - Mains and Services Expense - provide a detailed explanation of the reason for the increase in labor charges. Provide the cost of the diagnostic review of work practices and procedures and a thorough discussion of the expected benefits of such a review. Quantify the dollar value of these benefits. Explain in detail why the review's costs would or would not be of a recurring nature.

(3) Account No. 877 - Measuring and Regulatory Station Expenses, City Gate Check Station - provide a detailed explanation of the reasons for the decreased labor charges.

(4) Account No. 878 - Meter and House Regulator Expenses - provide a detailed explanation of the nature and reason for the increased transportation charges.

(5) Account No. 880 - Other Expenses - provide a detailed explanation of the reasons for the increased labor

charges. Provide a detailed explanation of the nature and reason for the increased costs associated with the operation of the East Service Center.

(6) Account No. 886 - Structures and Improvements - provide a detailed explanation of the reasons for the increased labor charges.

(7) Account No. 887 - Mains - provide a detailed explanation of the reasons for the decrease in labor charges. Provide a detailed explanation of the nature and reason for the increased transportation charges.

(8) Account No. 892 - Services - provide a detailed explanation of the reasons for the increased labor charges. Provide a detailed explanation of the nature and reason for the increased charges for materials used in repairs to services.

j. Customer Accounts Expenses:

(1) Account No. 901 - Supervision - provide a detailed explanation of the reasons for the increase of hours charged to this account.

(2) Account No. 903 - Customer Records and Collection Expenses - provide a detailed explanation of the reason for the increased labor charges. Provide a detailed explanation of the nature and reasons for a \$264,104 decrease in computer equipment rental payments.

k. Customer Service and Information Expenses:

(1) Account No. 910 - Miscellaneous Customer Service and Information Expense - provide a detailed explanation of

the nature and reasons for a decrease in phone expenses. Provide a discussion of whether this reduction was a one-time only occurrence.

1. Sales Expenses:

(1) Account No. 912 - Demonstrating and Selling Expenses - provide a discussion of the reasons for and nature of the increases.

m. Administrative and General Expenses:

(1) Account No. 920 - Administrative and General Salaries - provide a discussion of the reasons for the increased labor expenses.

(2) Account No. 923 - Outside Services Employed - provide the amounts transferred to this account for Kelly Services and Murray Guard. Indicate the accounts previously charged with these expenses. Provide an itemized listing of the advisory agencies employed, the amount for each charged to expense, the nature of the services provided, and any expected benefits, cost savings or other efficiencies.

(3) Account No. 925 - Injuries and Damages - provide an itemization of the increased costs as noted in the response.

(4) Account No. 926 - Employee Pensions and Benefits - provide the amount decrease in pension expense during the test year from the prior 12-month period. Provide a detailed explanation and quantify the other items which increased during the test year.

(5) Account No. 931 - Rents - provide a detailed explanation of the reasons for the increased rents for computer equipment.

37. With reference to LG&E's response to Item No. 35 of the Commission's Information Request No. 2, it is indicated that LG&E expensed \$6,232 in advertising expenses for radio spots regarding information about the July storm damages. Please explain why LG&E did not include these other expenses as part of the adjustment to amortize the storm damages over a 3-year period. Indicate any additional advertising or other expenses related to the July storm not included in the adjustment to amortize the July storm damage.

38. With reference to LG&E's response to Item No. 37(a) of the Commission's Information Request No. 2, the increase in directors' compensation, provide any recommendations of the Management Audit and explain any actions taken as a result of the Management Audit.

39. With reference to LG&E's response to Item No. 43(a) of the Commission's Information Request No. 2, itemize the studies within the scope of detailed and conceptual engineering design made during the test year. For each study, provide the total cost during the test year, the amount expensed during the test year and a brief description of the nature of the study.

40. Fowler Exhibit 8 presents the calculation of the net original cost rate base for LG&E as of test year-end.

a. On page 1 of 2, line 14, is presented the balances for materials and supplies. The total of \$47,569,950 is allocated \$46,126,080 to electric and \$1,443,870 to gas. In the response to

the Commission's Information Request No. 1, Item No. 11(i), page 1 of 1, the figures presented show the allocation to electric as \$46,129,745 and to gas as \$1,440,205. Provide an explanation of the disagreement, including supporting workpapers and calculations. Indicate the appropriate allocation.

b. On page 2 of 2, line 4, is presented the gas supply expenses for the working capital calculation. The amount presented is \$114,683,111. Fowler Exhibit 4, Schedule M, shows gas supply expenses as \$113,466,395. Provide an explanation of this disagreement, including supporting workpapers and calculations. Indicate the proper amount to use.

41. With reference to the response to Item No. 36 of the Commission's Information Request No. 2, provide a detailed breakdown of the EEI membership fee of \$164,390. The breakdown should include the portions of the membership fee related to lobbying, advertising, contributions, public relations, and other EEI activities.

42. With reference to Item No. 39, Trimble County Unit 1 ("Trimble County") costs, of the Commission's Information Request No. 2, the response on the Trimble County costs appears to identify only those costs capitalized. In the approximately 30 pages of printout previously submitted are found payments for the Trimble County Delphi Procedure Costs and legal services for bond counsel for Trimble County Pollution Control Bonds.

Exclusive of the already identified capitalized Trimble County costs, provide a total of all other Trimble County related expenses classified as outside services.

43. With reference to Item No. 26, page 2 through 32, of the Commission's Information Request No. 1, provide a total for those outside services which are of a nonrecurring nature. Provide a breakdown of this total by vendor.

44. With reference to Item No. 40 of the Commission's Information Request No. 2, concerning the allocation of the provision for uncollectible accounts:

a. Provide a thorough discussion of why LG&E does not maintain records of charge-offs by department.

b. Provide a detailed explanation of why the historic charge-offs are not incorporated into the determination of the allocation of uncollectible accounts. Include in this explanation a discussion of why the percentage of gross revenues method is a better approach to determining the allocation.

45. With reference to Item No. 33 of the Commission's Information Request No. 2, provide the number of end-users at August 31, 1986 and August 31, 1987, that LG&E transported natural gas for.

46. In response to the Commission's Data Request No. 1, Item 81.

a. How does marketing additional electric service benefit LG&E's existing gas customers?

b. Did LG&E make a determination that there are no industrial customers in its service area where gas consumption represents the greatest part of their utility costs?

47. In response to the Commission's Data Request No. 1, Item 84, it is stated that depreciation rates are increased to accrue for negative salvage.

a. For mains and services what has been the average cost for removing each?

b. On what basis is it decided to remove or leave in place a main or service line?

c. To the extent that a main or service is left in place why does negative salvage occur?

d. Since the average service life for mains and services is different, why is the same annual accrual rate used?

48. In response to the Commission's Data Request No. 1, Item 85, it is stated that the current depreciation rates are those adopted in the 1979 depreciation study (except for gas underground storage plant).

a. Why didn't the 1983 depreciation study result in revised depreciation rates for mains and services?

b. Hasn't the cost of removal of mains and services changed since 1979 which would affect the degree to which negative salvage is incurred?

c. As a result of the 1987 depreciation study currently underway, does LG&E anticipate a revision in the depreciation rates for mains and services?

49. Regarding Item 86, your response states that future salvage and removal expense was considered in the determination of

depreciation rates for mains and services. What impact did this consideration have on the depreciation rates in use?

50. In response to the Commission's Data Request No. 1, Item 90 (b), it is stated for the proposed Rate T the pipeline demand reduction requirement is not necessary to provide service to new customers or added load to existing customers. Why isn't this language included in the tariff?

51. Regarding your response to Item 91, has LG&E ever denied transportation service to any end user at any time due to the lack of pipeline demand capacity on its system? If yes, please describe the circumstances.

52. For Rate TS, what is the rationale for reducing the "distribution charge" by 50 cents per Mcf under the conditions stated? Explain the extent to which the unrecovered costs will be shifted to other customers.

53. For proposed Rate T, what is the basis for the minimum requirement of 50 Mcf per day?

54. Provide all workpapers, calculations, equation variable data and detailed explanations so that the Commission can reproduce Dr. Olson's least squares estimates of growth rates for earnings per share, book value, and dividends as shown in Item 63, page 3 of 3, in LG&E's Second Response to Commission Order dated December 23, 1987.

55. Mr. Walker's response to Commission request Item 75 details functional assignment vector F05. This vector appears to be identical to Plant Classification Vector F07 shown on page D-1 of Appendix D of Walker Testimony Exhibit A. Are these vectors

the same? If so, please provide an explanation of why they should be identical.

56. On page 4 of Mr. Kasey's testimony, it was stated that the summer peak period was June-September. Why wasn't the month of May chosen given it appears in Figure 1 that the May load is greater than September?

57. How would the load curve in Figure 3 of Mr. Kasey's testimony change if the winter peak period was changed to October through April?

58. On page 10 of Mr. Kasey's testimony regarding his weighted regression analysis, how was the weighting (w) determined?

59. Furnish copies of workpapers which support the electric and gas miscellaneous service revenue adjustments of \$57,284 which result from increasing the reconnection fee from \$12.00 to \$16.00.

60. Furnish copies of workpapers and explanations for the determination of the increase to each of the different rate components in the electric and gas rate schedules.

61. When and how many times have the customers of G-6 and G-7 rate schedules been interrupted during 1986 and 1987?

62. Further explain "uncommitted gas service" in Rate Schedule G-7 compared to G-6, and in Mr. Hart's testimony on page 13, line 28, with reference to Rate T.

63. If a customer goes to Schedule T for transportation of its gas supply, then at a time in the future the customer's supply

is suddenly unavailable and the customer requests to be placed back on LG&E's system, what would be your procedure?

64. In your request for elimination of Rate G-8, you state that 319 of 330 have transferred or requested transfer to Rate G-1. What is the position of the remaining 11 customers at this time?

65. Furnish copies of the workpapers for the correction factors used in computing the electric and gas rates.

66. Please list the total test year expenses of Residential Conservation Service ("RCS") Program.

67. List the number of people assigned to the RCS Program. If personnel are not assigned to it full time, then indicate the percentage of time spent on RCS by those assigned to the program on a part-time basis.

68. Provide an approximate breakdown of how the expenses were incurred such as:

- a. Administration of the program.
- b. Energy audits of customer residences.
- c. Arranging installation and/or financing for customers to install installation.
- d. Other.

69. With reference to Item No. 42 of the Commission's Information Request No. 2, concerning early retirements and abandonments of utility property:

- a. Provide copies of LG&E's Form 4797 for tax years 1984, 1985, and 1986. For each form, indicate the amount of loss claimed for the sulfur dioxide removal system ("SDRS") units.

b. In the response to Item No. 42(a), page 1 of 2, the following statement is made,

LG&E uses the whole life group accounting method to arrive at annual accrual rates for each functional group. This method is dependent upon arriving at an Average Service Life ("ASL") for each primary account. (Emphasis added.)

In the 1981 Annual Report, page 336-1, and the 1986 Annual Report, page 338-1, filed with the Commission, the following policy is stated,

Retro-fit SDRS are classified to the various steam production primary accounts and depreciated on the basis of the estimated remaining service life of related steam production plant. (Emphasis added.)

Provide a thorough discussion of why SDRS units are depreciated differently than was indicated in the Item No. 42(a) response. Explain in detail why SDRS units do not constitute an individual functional group or have a separate ASL.

c. In the response to Item No. 42(a), page 2 of 2, is presented LG&E's assumptions in support of not recognizing losses on early retirements, namely that early retirements will be offset by property with lives beyond the ASL and future year adjustments to depreciation rates.

(1) Provide a thorough discussion of how the assumption of property life offset is valid when ASLs are set at 20 to 25 years and the actual service life is between 4 and 7 years.

(2) With reference to the future adjustment of depreciation rates, provide a detailed explanation concerning how the adjustment would be made.

d. In the response to Item No. 42(d), the accounting entries record decreases to plant and accumulated depreciation, adjusted by applicable removal expenses and salvage proceeds. No other accounts were indicated as being effected by the retirements.

(1) Provide a detailed explanation of the effects the early retirements had on the deferred income tax accounts, both Federal and State. Include the effect on the deferred income tax computation in the retirement year as well as the effect on the existing balance in those tax accounts.

(2) Provide a detailed explanation of the effects the early retirements had on the investment tax credit account. Include a thorough discussion of why the early retirements listed in Item No. 42(d), page 1 of 48, would not involve the recapture of an investment tax credit taken on the asset when it went in service.

e. Throughout the response to Item No. 42, LG&E has asserted that the recognition of losses from early retirements would require revisions or adjustments to the depreciation rates. Provide a thorough discussion of why the depreciation rates would need to be revised when the reason for early retirement is not an inaccurate ASL, but obsolescence due to technological improvements and stricter air quality standards.

f. Attachment 1 of this request is based on the information supplied in the response to Item No. 42(d), page 1 of 48, concerning selected early retirements and abandonments, information previously supplied to the Commission staff by LG&E and the assumptions for 1986 on page 3 of 3 of Attachment 1. Based on this information, the Accumulated Depreciation and Net Loss were computed for retirement.

(1) Subject to check, would LG&E agree that the amounts in Attachment 1 accurately reflect the accumulated depreciation and net losses related to the 10 early retirements submitted in Item No. 42(d)? If not, provide LG&E's calculations of the accumulated depreciation and net losses. Include all supporting workpapers with depreciation rates, assumptions, and in service lives.

(2) Would LG&E agree that its current accounting practices concerning early retirements has produced an understatement of the accumulated depreciation account? According to the figures on Attachment 1, subject to check, this understatement would be \$27,919,491. If LG&E does not believe the accounting for early retirements has led to an understatement, provide a detailed explanation of its position.

(3) Would LG&E agree that the understatement of the accumulated depreciation account in turn overstates its net original cost rate base by the same amount? Provide a detailed explanation if LG&E disagrees.

Done at Frankfort, Kentucky, this 15th day of January, 1988.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

ATTACHMENT 1
CASE NO. 10064
PAGE 1 OF 3

DESCRIPTION & LOCATION	(1) ORIGINAL COST RETIRED	(2) REMOVAL EXPENSE	(3) SALVAGE	(4) NET CHARGE TO DEPREC. RESER. (1 + 2 - 3)	(5) ACCUMULATED DEPRECIATION	(6) NET LOSS (4 - 5)
1984 RETIREMENTS						
HILL CREEK STATION SDRS UNIT #2 RETIREMENT WORK ORDER #92070	232,000	30,879	425	262,454	29,464	232,990
HILL CREEK STATION SDRS UNIT #3 RETIREMENT WORK ORDER #92070	11,997,921	1,596,916	21,975	13,572,862	3,103,862	10,469,000
TOTAL FOR 1984	12,229,921	1,627,795	22,400	13,835,316	3,133,326	10,701,990
1985 RETIREMENTS						
CANE RUN STATION SDRS UNIT #6 RETIREMENT WORK ORDER #92069	3,417,514	170,099	0	3,587,613	1,072,758	2,514,855
HILL CREEK STATION SDRS UNITS #1 & #2 RETIREMENT WORK ORDER #92070B	568,299	75,640	1,041	642,898	98,203	544,615
CANE RUN STATION UNITS #1 & #2 RETIREMENT WORK ORDER #92668	18,753,635	0	0	18,753,635	17,528,158	1,227,477
BALLARDSVILLE STORAGE FIELD RETIREMENT WORK ORDER #02390	1,959,887	329,760	12,811	2,267,836	1,030,160	1,237,676
CANNON STORAGE FIELD RETIREMENT WORK ORDER #02391	1,814,941	184,670	43,303	1,955,408	737,615	1,217,793
FLINT HILL STORAGE FIELD RETIREMENT WORK ORDER #02392	5,590,530	383,630	165,000	5,809,160	1,551,772	4,257,388
TOTAL FOR 1985	32,094,806	1,143,799	222,155	33,016,550	22,016,746	10,999,804

LOUISVILLE GAS & ELECTRIC COMPANY
 RETIREMENTS OF UTILITY PLANT:
 SULFUR DIOXIDE REMOVAL SYSTEM (SDRS)
 GAS STORAGE FIELDS
 BOOK LOSSES IN EXCESS OF \$500,000

ATTACHMENT 1
 CASE NO. 10064
 PAGE 2 OF 3

DESCRIPTION & LOCATION	(1) ORIGINAL COST RETIRED	(2) REMOVAL EXPENSE	(3) SALVAGE	(4) NET CHARGE TO DEPREC. RESER. (1 + 2 - 3)	(5) ACCUMULATED DEPRECIATION	(6) NET LOSS (4 - 5)
1986 RETIREMENTS						
CANE RUN STATION SDRS UNITS #5 & #6 RETIREMENT WORK ORDER #92069B	3,002,364	904,546	7,162	3,899,748	1,467,858	2,431,892
HILL CREEK STATION SDRS UNIT #4 RETIREMENT WORK ORDER #92070C	4,098,124	406,304	1,041	4,503,387	717,582	3,785,805
TOTAL FOR 1986	7,100,488	1,310,850	8,203	8,403,135	2,185,438	6,217,697
TOTALS, 1984 THROUGH 1986	51,425,315	4,002,444	252,758	55,255,001	27,335,510	27,919,491

LOUISVILLE GAS & ELECTRIC COMPANY
 RETIREMENTS OF UTILITY PLANT:
 SULFUR DIOXIDE REMOVAL SYSTEM (SDRS)
 GAS STORAGE FIELDS
 BOOK LOSSES IN EXCESS OF \$500,000

ATTACHMENT 1
 CASE NO. 10064
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RATES USED TO CALCULATE ACCUMULATED DEPRECIATION

RETIREMENT	FIRST YEAR RATE	NORMAL RATE	OTHER FACTORS
1984:			
HILL CREEK SDRS UNIT #2	0.3400%	4.1200%	ASSUMED RETIREMENT AT DECEMBER 31, 1984
HILL CREEK SDRS UNIT #3	1.1500%	4.1200%	ASSUMED RETIREMENT AT DECEMBER 31, 1984
1985:			
CANE RUN SDRS UNIT #6	3.4900%	4.6500%	ASSUMED RETIREMENT AT DECEMBER 31, 1985
HILL CREEK SDRS UNIT #1	0.3500%	4.2900%	ASSUMED RETIREMENT AT SEPTEMBER 30, 1985
HILL CREEK SDRS UNIT #2	0.3400%	4.1200%	ASSUMED RETIREMENT AT SEPTEMBER 30, 1985
CANE RUN UNITS #1 & #2:			
1950 - 1956		3.3800%	ASSUMED HALF YEAR CONVENTION FOR ALL ADDITIONS
1957 - 1958		2.9400%	AND RETIREMENTS
1959 - 1961		3.0600%	
1962		3.4100%	
1963 - 1967		3.3400%	
1968 - 1969		3.2500%	
1970 - 1972		3.2800%	
1973 - 1979		3.2300%	
1980 - 1985		3.2200%	
BALLARDSVILLE, CANNON, & FLINT HILL FIELDS:			
LAND RIGHTS & LEASEHOLDS-			
1964 - 1985		3.3300%	ASSUMED HALF YEAR CONVENTION FOR ALL ADDITIONS
DEPRECIABLE PLANT-			ASSUMED ELEVEN MONTHS ACCRUAL IN 1985
1964 - 1966		4.8000%	
1967 - 1969		4.1600%	
1970 - 1972		3.9100%	
1973 - 1979		3.5200%	
1980 - NOV., 1985		3.3700%	
1986:			
CANE RUN SDRS UNIT #5	3.4900%	4.9800%	ASSUMED RETIREMENT AT DECEMBER 31, 1986
CANE RUN SDRS UNIT #6	3.4900%	4.6500%	ASSUMED RETIREMENT AT DECEMBER 31, 1986
HILL CREEK SDRS UNIT #4	0.3500%	4.2900%	ASSUMED RETIREMENT AT DECEMBER 31, 1986